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S E C R E T SECTION 01 OF 04 KUALA LUMPUR 000080

SIPDIS

STATE FOR EAP/MTS
HQ U.S. PACIFIC COMMAND PLEASE PASS TO LTG MIXON, RADM
LANDOLT, RADM CONNOR, AND RADM TYSON

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TAGS: [PREL](#) [MARR](#) [MASS](#) [MOPS](#) [PGOV](#) [PTER](#) [ECON](#) [OVIP](#) [MY](#)
SUBJECT: MALAYSIA SCENESETTER FOR VISITS OF SENIOR U.S.
MILITARY OFFICERS -- LTG MIXON, RADM LANDOLT, RADM CONNOR,
AND RADM TYSON

Classified By: Political Counselor Mark D. Clark for reasons 1.4 b and
d.

Introduction and Summary

1. (C) The Embassy warmly welcomes you to Malaysia at a juncture that offers new prospects in the bilateral relationship. Malaysia has cautiously welcomed the new U.S. Administration as it approaches its own leadership transition in late March. Malaysia is an economically successful, relatively stable, Muslim-majority country, strategically located on the Strait of Malacca. Robust trade and investment ties remain the solid foundation of our relationship, although the current global economic crisis is putting increasing strains on the Malaysian economy and on the government to put forth effective stimulus and reform measures in response. We also maintain good law enforcement, counterterrorism and defense relations. Politically and diplomatically, however, Malaysia has sought to distance itself from the U.S., has been highly critical of U.S. actions in West Asia, and has not always acted in support of important international norms, including in the area of nonproliferation. The 2008 election setback to Prime Minister Abdullah Badawi's governing coalition introduced more political competition and highlighted public calls for needed rule-of-law reforms. The setback also set the stage for Deputy Prime Minister Najib to replace Abdullah as Malaysia's leader in late March. How Malaysia fares with democratic and rule-of-law reforms, and its responsibilities as an international actor, will significantly affect our future bilateral relationship. End Introduction and Summary.

Political Landscape

2. (C) Malaysia has a parliamentary republic form of government that has been dominated since 1957 by the United Malays National Organization (UMNO) and its coalition partners. Traditionally, most political parties have been race-based. Ethnic Malays constitute 60% of Malaysia's population and have dominated Malaysian politics since independence, resulting in many race-based preferences in employment, education and government benefits. Malays are legally defined as Muslims, and the role of Islam in society and government has grown over past decades. The surprise gains by the opposition in the March 2008 election remade Malaysia's political landscape and shocked UMNO's National Front (BN) ruling coalition. A resurgent opposition increased its parliamentary representation four-fold and denied BN its two-thirds majority -- necessary to pass constitutional amendments -- for the first time in Malaysia's

history. The March election also marked the political return of former Deputy Prime Minister and current opposition leader Anwar Ibrahim, who threatened to unseat the Prime Minister through a vote of no-confidence. Although this move that has since stalled, the opposition has won two by-elections held since the general elections, an indication that voters remain dissatisfied with BN. The election shock set off a leadership struggle within UMNO and PM Abdullah's eventual decision under pressure to step down in March 2009 when UMNO officially holds party elections. Although Deputy Prime Minister Najib is the uncontested heir-apparent, the fight for other senior UMNO positions is intense. As UMNO has turned inward and employed Malay chauvinist rhetoric, UMNO's relations with ethnic minority parties (Chinese, Indians), already weakened before the March election, have been further strained.

13. (S) Due to take over from Prime Minister Abdullah by early April, Deputy Prime Minister Najib has a more pragmatic and action-oriented leadership style compared with Abdullah. Najib exhibits a stronger grasp of international politics and Malaysia's place in the region and the world, and places significant priority on foreign relations beyond the NAM and OIC, the traditional reference points for Malaysia's foreign policy. He readily recognizes the benefits to Malaysia of engaging the U.S., along with the emerging powers China and India, and of participating in international structures. This opens new potential, but not a certainty, for expanding existing cooperation and extending our partnership into new areas. Domestically, we recognize in a Najib government clear opportunities for economic reform, and uncertain prospects for our democracy and rule-of-law objectives.

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Najib's commitment to and ability to carry out needed rule-of-law reforms will be constrained by the vested interests of his UMNO party, his own political vulnerabilities, including allegations of corruption, and unprecedented challenges from the opposition coalition.

14. (C) Against the fluid domestic backdrop, Malaysians' reactions to the new U.S. Administration have been overwhelmingly positive, but with a strain of caution. Almost immediately, the Malaysian government indicated its willingness to engage in more political dialogue with the U.S. We anticipate that we will have new opportunities to pursue our priorities with Malaysia as the new Administration sets its agenda in motion. In particular, the GOM has long been critical of U.S. Middle East policy, most recently voicing outrage over our position in Gaza, and will closely watch our approaches to Israel/Palestine, Iraq, and Iran.

Defense Relationship

15. (C) Overall military to military relations have been solid as indicated by both SECDEF and then Malaysian Defense Minister Najib during bilateral meeting at the Shangri-La Dialogue in June 2008. Military-to-military engagement has improved significantly over the last several years, including notable increases in U.S. Naval visits and professional exchanges. In 2008 there were 26 US Navy ship visits to Malaysian ports and 22 visits in 2007, up from only five ship visits in 2003. Inter-agency engagement has also increased with the newly formed Malaysian Maritime Enforcement Agency, which has broad maritime law enforcement, humanitarian, and security responsibilities similar to the U.S. Coast Guard. Malaysia avoided public engagement with the U.S. military at the height of the Gaza conflict, reflecting the country's condemnation of the U.S. alongside Israel, but there was no lasting fall-out. Incoming Prime Minister Najib's background as Defense Minister and practical view of our military relationship could bode well for our future defense engagement.

16. (C) The Malaysian armed forces have prioritized security

in the tri-border area shared with the Philippines and Indonesia with establishment of a new Joint Forces Command whose task force is responsible for security in the tri-border area of Sabah. The U.S. is assisting with the provision of coastal radars and related systems, along with training, to strengthen maritime border security in this area of terrorist transit through the 1206 programs. Military engagement for counterterrorism is led by Special Operations Forces and focuses on ground close quarter combat training, and maritime non-compliant boarding. Special Operations Forces also participate in some counter narcotics training of Malaysian field force police and customs officers. Both Army and Air Force components are also involved in numerous bilateral training such as KERIS Strike and COPE Taufen respectively with our forces. Recently, all tri-services have also shown some interest in senior level NCO exchanges and overall development of Malaysian NCO corps.

CT and Law Enforcement

17. (S) We continue to benefit from relatively close counterterrorism and law enforcement cooperation. Although it keeps the details closely held, the GOM has been an important partner on counterterrorism. Early round-ups in 2001-2002 of Jemaah Islamiyah (JI) suspects helped ensure there have been no terrorist attacks here. Nonetheless, senior alleged JI militants have been arrested in Malaysia within the past year. Malaysia pursues almost exclusively an intelligence approach to counterterrorism through the Royal Malaysian Police Special Branch, which is largely autonomous from the rest of the police. Malaysia's law enforcement skills to investigate and prosecute terrorism cases, narcotics and other complex criminal conspiracies, accordingly, are undeveloped. Malaysia has not prosecuted any terrorist suspects, though hundreds have been detained under the ISA. Growing political pressure to do away with the ISA poses a longer term challenge to Malaysian law enforcement.

18. (C) Greater regional CT cooperation between Malaysia and its neighbors is needed. Since the announcement that

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Guantanamo will be closed, the Prime Minister has publicly expressed his wish for the two Malaysian detainees to be transferred to Malaysia. We continue to provide capacity-building training and assistance to Malaysia's police and other agencies. We signed a Mutual Legal Assistance Treaty with Malaysia in 2006, which has just entered into force. Malaysia has cooperated with Thailand regarding the insurgency in southern Thailand, but acknowledges that the problem is foremost an internal Thai political challenge. In recent years, Malaysia played a facilitative role in the peace process between the Philippine Government and the MILF in the southern islands, but Malaysia withdrew its monitors from Mindanao after a set-back in the talks in 2008.

International Responsibility and Nonproliferation

19. (C) We seek Malaysian actions that bolster multilateral security structures and represent increasingly responsible positions in the international arena, including on nonproliferation matters and export controls. Given Malaysia's position as a trading hub, its policy of pursuing increasing economic ties with Iran, and public reports of Iranian procurement via Malaysia, Malaysia's enforcement of nonproliferation norms and related UNSC sanctions becomes critical. We continue to urge Malaysia to enact export control legislation and have provided technical assistance in this area.
Pressure for Reforms

¶10. (C) Growing domestic demand for better and more transparent governance and Abdullah's failure to institute meaningful rule-of-law reforms contributed to the government's 2008 electoral setback. Since March, Abdullah has pushed through modest reforms to strengthen the judiciary and anti-corruption efforts, but too much control remains in the hands of the executive branch. With more political competition, Malaysia is experiencing somewhat more press freedom, but the Government still exerts great influence over most media outlets, save for the internet. No significant institutional reforms yet underpin the current democratic openings and the state retains authoritarian levers from the Mahathir era (1982-2003), as demonstrated in the ISA arrests in September of two journalists and an opposition parliamentarian. Malaysia continues to wrestle with problems related to migrants and refugees due to porous borders and instability in Burma. The U.S. is actively pressing Malaysia to take positive action to combat trafficking in persons and protect refugees.

Malaysia's Economy

¶11. (SBU) Malaysia had limited direct exposure to the U.S. sub-prime market in part because of lessons learned from the 1997-8 Asian financial crisis but the economic slowdown in the U.S. and the rest of the world dampened growth in Malaysia in 2008 and will slow the its export-oriented economy even more in 2009. Although the Government of Malaysia has not offered a public statement revising its official forecast of 3.5 percent GDP growth for 2009, its actions speak louder than its words. On January 21 the central bank, Bank Negara Malaysia, slashed interest rates by 75 basis points, surprising analysts who had forecast a 25 or 50 point cut. Most analysts' GDP growth predictions have ranged from zero to two percent for this year, but in private bankers say recession is inevitable. The GOM continues to downplay Malaysia's economic problems in an effort to boost -- or at least not undermine -- confidence, but GOM policy actions indicate the government's internal views match bankers' private forecasts that the economy is headed into recession. While on a cumulative basis the U.S. remains Malaysia's top source of foreign direct investment, approved projects from several other countries surpassed those of the U.S. during the last several years. In the first half of 2008, approved projects from U.S. investors rank third, after Australia and Germany.

¶12. (SBU) Malaysia's economy is among the more open, diverse, and better-developed among Muslim-majority nations and in ASEAN. The United States is Malaysia's largest trading partner, and Malaysia is now the 16th largest trading partner

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for the United States. We currently are engaged with the GOM in negotiations for a comprehensive bilateral Free Trade Agreement designed to increase market access, remove barriers to investment and improve protection for intellectual property rights. The outcome of these discussions, however, is uncertain as the Malaysian side has yet to obtain a full negotiating mandate from the cabinet to engage on core areas such as government procurement and financial services.

KEITH